

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

CELSIS IN VITRO, INC.,)	No. 10 C 4053
Plaintiff,)	Chicago, Illinois
)	September 7, 2010
-vs-)	10:00 o'clock a.m.
)	
CELLZDIRECT, INC., et al.,)	
Defendants.)	

TRANSCRIPT OF PROCEEDINGS - RULING
BEFORE THE HONORABLE MILTON I. SHADUR

APPEARANCES:

For the Plaintiff:	LOEB & LOEB LLP 321 North Clark Street Suite 2300 Chicago, Illinois 60654 BY: MR. JORDAN SIGALE MR. ADAM G. KELLY MS. JULIE L. LANGDON
For the Defendants:	HILLIS CLARK MARTIN PETERSON, P.S. 1221 Second Avenue Suite 500 Seattle, Washington 98101 BY: MR. LOUIS D. PETERSON and LIFE TECHNOLOGIES CORPORATION 5791 Van Allen Way Carlsbad, California 92008 BY: MR. RIP FINST MR. SCOTT MILLER
Court Reporter:	ROSEMARY SCARPELLI 219 South Dearborn Street Room 1412 Chicago, Illinois 60604 (312) 435-5815

1 THE CLERK: This is 10 C 4053, Celsis In Vitro
2 versus CellzDirect.

3 THE COURT: Mr. Peterson, I understand you are on
4 the line, although we have some problem with our phone, and
5 so I hope that you are going to be able to hear everything
6 that is said because we are not --

7 MR. PETERSON: Good morning, your Honor. Your
8 Honor, this is Lou Peterson on behalf of the defendant. And
9 so far I can hear you just fine.

10 THE COURT: Okay. How about counsel here in court.

11 MR. SIGALE: Good morning, your Honor, Jordan
12 Sigale, Adam Kelly and Julie Langdon on behalf of the
13 plaintiff.

14 MR. FINST: Rip Finst and Scott Miller for Life
15 Technologies, along with Mr. Peterson on the phone, your
16 Honor.

17 THE COURT: Good morning to all of you.

18 You know, I must say that until this case I never
19 really had captured what in my mind's eye I had always
20 thought about the patent concept of prior art in which you
21 picture the inventor sitting in a room at a desk with the
22 walls festooned with the prior art. And that, of course, is
23 a concept that involves the inventor is bound to know the
24 prior art. The reason I say that is I now appreciate it
25 because I am surrounded and blocked by all of the papers that

1 you people have inflicted on me and I feel like the inventor.

2 Well, the other thing I wanted to say at the
3 beginning was that I had, as you know, indicated that I would
4 be giving my ruling orally, with the anticipation that I
5 might then reduce it to a written form as an opinion. What I
6 typically do whenever I deliver an oral ruling to make notes
7 for myself, usually in the form of a -- an outline that tells
8 me when I ought to be moving from here to there, and then to
9 supplement that for myself with some more detailed notes as
10 to things that I want to be particularly careful about
11 touching on.

12 In this instance, partly because of the complex
13 vocabulary involved, I guess more than the complexity of
14 issues, what I started to do was to dictate something so that
15 my secretary could transcribe that. And I have ended up with
16 a totally dictated and totally transcribed sort of script for
17 myself, and I am going to be going through that.

18 The net result of that is I am not going to be
19 publishing an opinion. I have provided the court reporter
20 with the text of what I am going to be talking about now,
21 which all of you are going to be able to hear, and that is
22 going to represent essentially my opinion.

23 So let me begin by saying that it is difficult to
24 know just where to begin. And I say that because the
25 defendants have launched such a multi-layered attack on the

1 Celasis patent. But what I have chosen to do is to begin with
2 the issue of infringement rather than perhaps the more
3 logical threshold subject of patent validity, primarily
4 because the former is more unitary and thus, as I think of
5 it, more readily dispatched, while the question of patent
6 validity, as we know, is divided into a number of issues.

7 As to infringement, Dr. Strom carefully spelled out
8 the parallels between the defendant's acknowledged steps and
9 the teaching of the patent, while on the other side of the
10 coin defendants really didn't offer anything in the way of
11 opinions to address the proper interpretation of the patent's
12 claims. In attempted response, the director of marketing
13 Markus Hunkeler asserted unpersuasively that their
14 centrifugation step is not the "density gradient
15 fractionation" step referred to in element A of Claim 1.
16 That is really a departure, as I think of it, from the normal
17 English language meaning of the words. For example, just
18 look up gradient in Webster's Third New International
19 Dictionary, which comports with the common understanding and
20 the common sense reading of that word. With no impertinence
21 intended, it really put me in mind of the classic Humpty
22 Dumpty ipse dixit in which everybody remembers from Alice in
23 Wonderland.

24 "When I use a word," Humpty Dumpty said, in rather
25 a scornful tone, "it means just what I choose it to mean,

1 neither more nor less." "The question is," said Alice,
2 whether you can make words that mean so many different
3 things." The question is," said Humpty Dumpty, "which is to
4 be master -- that is all."

5 Then the defendants attempt to fall back on a
6 specious argument that if they do indeed practice density
7 gradient fractionation in the first instance, then what they
8 recommend to their customers as part of the washing step
9 after the final thaw would also be a density gradient step
10 within the meaning of Claim 1's step C. On that score
11 defendants advance the contention that I spoke of the other
12 day when I characterized that position that was advanced in
13 Footnote 4 at Page 5 of the post-hearing brief as hokum. It
14 is they and not Celasis who "attempt to rewrite the 'a density
15 gradient step' limitation," in the language that they employ
16 in the text on that same Page 5.

17 All of this could be elaborated further, but it is
18 really not necessary to do that, for I found that the more
19 detailed exposition at Pages 2 through 4 of the Celasis
20 post-hearing memorandum has accurately provided chapter and
21 verse on that subject. Just a few words ought to be said
22 about defendants' contention that the Celasis presentation is
23 flawed because neither it nor its opinion witnesses actually
24 tested or performed the defendants' accused processes to show
25 infringement. Celasis correctly responds in part that this

1 newly-advanced contention by defendants is not supported by
2 the authorities that defendant cite in the context of a
3 preliminary injunction proceeding. But even if that were not
4 the case, the argument is without merit in any event.
5 Indeed, it is really an obvious straw man.

6 To begin with, defendants, of course, know the
7 methods that they use in detail, and everyone has agreed that
8 the commodity in which the parties deal, hepatocytes, is in
9 short supply. It is painfully obvious from the Stalingrad
10 defenses that defendants have offered, retreating street by
11 street, as their objections are overcome, that if Celsis had
12 sought to replicate their methodology, it no doubt would have
13 been confronted with the contention that the Celsis people
14 hadn't performed the steps in precisely the same way
15 defendants do.

16 If defendants are not in fact practicing the
17 methods taught in the patent -- remember that the "wherein"
18 limitations provide a kind of roadmap, as I have said
19 earlier, for practicing around the patent without
20 infringement -- it would have been a simple matter for
21 defendants to demonstrate that -- and, if that were true, to
22 extricate themselves from this litigation. Now, this isn't a
23 matter of shifting the burden of production on the subject of
24 infringement, which I find Celsis has more than met for the
25 reasons already discussed, it is rather the relative ease of

1 showing their own methodology that defendants ignore by
2 making that argument.

3 In sum, it is an understatement to say that Celsis
4 has shown substantially more than a reasonable likelihood of
5 success on the subject of infringement. So I turn to the
6 multifaceted subject of the patent's validity.

7 In that respect I think it appropriate to begin
8 with the issue of obviousness, because, if I can be pardoned
9 an element of satire, it is also so painfully obvious that
10 what is urged is a case of second-guessing or of sheer sour
11 grapes. Instead of a more candid "Why didn't I think of
12 that", we get "Anybody reasonably skilled in the art would
13 have thought of that."

14 Yet look at the facts. It is startling -- or at
15 least it was startling for me to learn the vast proliferation
16 of authors and articles dealing with hepatocytes and use of
17 cryopreservation, a combination about which I was thankfully
18 blissful and blissfully ignorant until this case came along,
19 but not a single one of that astonishingly large body of
20 literature was devoted to the subject of
21 multi-cryopreservation of hepatocytes -- and I have properly
22 laid stress on "multi."

23 That was not the subject of numerous articles
24 authored or assembled by Dr. Li or Dr. Gupta or by any of the
25 other scientists who participated in the consortium about

1 which Dr. Li testified, or for that matter by anybody else.
2 All defendants have come up with instead is a wisp of a term
3 that is buried in the Mahli article of which Dr. Gupta was
4 the co-author. Just look at the title of that article,
5 Isolation of Human Progenitor Liver Epithelial Cells with
6 Extensive Replication Capacity and Differentiation into
7 Mature Hepatocytes, or at the article's preliminary summary
8 which also makes no mention of the subject that is now at
9 issue in this case or of the text in the article itself,
10 which after five pages of closely packed discussion includes
11 a sentence that uses the term "repeated cryopreservation" in
12 the context of mentioning high viability. I am well aware of
13 the standards applied by the Federal Circuit in dealing with
14 prior art, nothing in that skeletal reference suggests or
15 even hints at the advance conceived of by the inventor here
16 and embodied in Claim 1.

17 Except in the world of second guessing and
18 hindsight in which defendants seek to operate, that snippet
19 in the Mahli reference neither foreshadowed nor rendered
20 obvious the concept that Dryden originated and became the
21 subject of the '929 patent. Perhaps the best evidence of the
22 poverty of defendants' obviousness argument is exposed by the
23 manner in which defense counsel portrays that argument at
24 Pages 8 and 9 of defendants' own post-hearing brief.

25 Listen to this -- and I read it in detail because

1 of what I think is the telltale aspect of it. LTC
2 established that asserted claims are merely "the combination
3 of familiar elements according to known methods" that "yield
4 predictable results" and, therefore, are obvious over the
5 prior art. See KSR International against Teleflex. It is
6 undisputed that every step of the Claim 1 method,
7 cryopreserving hepatocytes, thawing cryopreserved hepatocytes
8 and density gradient fractionation, was well-known in the
9 prior art.

10 The inventor, Daniel Dryden, admitted that each of
11 these steps was well established in the art by April of 2005
12 and that he did nothing new or different with respect to any
13 of the steps. Celsis' expert, Dr. Strom, likewise admitted
14 that use of density fractionation to separate viable and
15 nonviable cells was "well established to everyone in this
16 field" and a person of ordinary skill in the art would have
17 known and fully expected that the viability of cryopreserved
18 hepatocytes could be substantially enhanced with density
19 gradient fractionation. According to Dr. Strom, "a person
20 of ordinary skill would believe that you could get very high
21 viability using a Percoll separation, and everybody is going
22 to expect this as the result." That is the end of the quote.

23 But remember that, of course, is not the point.
24 What was not obvious to a person of order skill in the art
25 was that the absence of a Percoll separation at the stage

1 described in step C of Claim 1 was described there as
2 "without inquiring a density gradient step after thawing the
3 hepatocytes for a second time was new, was conceived and
4 developed by Dryden and had not been thought of or
5 accomplished by any of the gurus who had been writing and
6 publishing extensively on related topics before Dryden came
7 up with his novel method. Again Dr. Li's revisionist
8 history is unpersuasive, and again Celsis has demonstrated
9 more than a substantial likelihood of success on the issue.

10 Next I turn to defendants' contention of patent
11 invalidity due to the lack of compliance with the "written
12 description" requirement as expounded in the en banc decision
13 in Ariad Pharmaceuticals against Eli Lilly & Company. In
14 that respect defendants point to the amendment of the
15 patent's claims to add limitation overcome the patent
16 Examiner's then asserted obviousness rejection, so as to
17 secure allowance of the issued claims. On that score,
18 defendants' post-hearing brief acknowledges this at Page 6.
19 Adding limitation to claims during prosecution is not per se
20 impermissible; in fact, it is a standard part of the patent
21 process.

22 In those terms anything that goes beyond the
23 original claim and that has no basis in the original
24 disclosure is necessarily invalid. Here, however, the
25 limitations at issue are negative limitations, which can also

1 pose a problem if they introduce a "new concept" into the
2 originally-filed patent application. But on that score the
3 post-hearing brief of Celsis at Pages 10 and 11 responds that
4 "The originally-filed patent application disclosed plating
5 the multi-cryopreserved hepatocytes after thawing them,"
6 while Example 1 in that same application taught no plating
7 step between the first and second cryopreservations. Indeed,
8 defendants' own opinion witness, Dr. Gupta, agreed that the
9 prior art teaches when to plate, and he offered nothing to
10 indicate that plating was somehow a new concept to the
11 originally-filed application.

12 So I decline defendants' invitation to second-guess
13 the Examiner through a restructuring of the record to fit the
14 defendants' Procrustean bed. Once more Celsis has met the
15 likelihood of success standard.

16 Finally in substantive terms, I turn to defendants'
17 contention that the patent is unenforceable because of
18 asserted inequitable conduct in the prosecution of the
19 application. Although this is in some sense a digression, I
20 have read with interest a special report in the August 16th
21 issue of the National Law Journal on the Federal Circuit's
22 scheduled en banc hearing in Therasense against Becton,
23 Dickinson on whether to change the standards for proving
24 inequitable conduct. The now vacated opinion in Therasense
25 was reported at 593 F.3d. 1289. It will, of course, be

1 interesting to see the result of that en banc hearing, but in
2 the interim, of course, I am going to deal with the standard
3 as it has been announced and applied in the current case law.

4 Now, in that regard Titan Tire against Case New
5 Holland teaches that alleged infringers such as defendants do
6 not need to prove invalidity at the preliminary injunction
7 stage by the same clear and convincing standard that will be
8 imposed at the trial on the merits. Instead, as Titan Tire
9 explained at Pages 1379 to -80 -- and this is a quote --

10 "Thus, when analyzing the likelihood of success factor, the
11 trial court, after considering all of the evidence available
12 at this early stage of the litigation, must determine whether
13 it is more likely than not that the challenger will be able
14 to prove at trial, by clear and convincing evidence, that the
15 patent is invalid. We reiterate that the clear and
16 convincing standard regarding the challenger's evidence
17 applies only at trial on the merits, not at the preliminary
18 injunction stage. The fact that, at trial on the merits, the
19 proof of invalidity will require clear and convincing
20 evidence is a consideration for the judge to take into
21 account in assessing the challenger's case at the preliminary
22 injunction stage; it is not an evidentiary burden to be met
23 preliminarily by the challenger.

24 Now, here the defendants point to the omission of a
25 portion of the Terry article from the quotation submitted in

1 the course of the patent prosecution. To that end I have
2 looked at the subject through the lense prescribed by the
3 Orion case -- Orion -- Orion, rather -- Orion against Hyundai
4 Motor, which requires a showing of, one, affirmative
5 misrepresentations of a material fact, failure to disclose
6 material information or submission of false material
7 information; and, two, an intent to deceive the United States
8 Patent and Trademark Office.

9 Materiality of a submission, or in this case of an
10 omission, does not flow automatically from the submission or
11 omission itself. In this instance neither of defendants'
12 opinion witnesses, Drs. Li and Gupta, provided any evidence
13 of materiality. Instead only Dr. Strom addressed the
14 subject, and he testified that the omissions from Terry
15 itself and the references cited in Terry (deSousa and Ulrich)
16 disclose nothing more than the prior art already before the
17 Examiner.

18 Moreover, the Examiner's own handling confirmed
19 that, when considering the subject of obviousness, the
20 Examiner cited and quoted from a portion of Terry different
21 from the section to which the defendants point. It is
22 obvious that she read and applied Terry itself, not just the
23 portion quoted by the applicant.

24 Nor have defendants supported their claim of a
25 misrepresentation in the patent applicant's June 2008

1 statement that "no one had been able to successfully multi-
2 cryopreserve hepatocytes. Once against presentation at
3 Pages 13 and 14 of Celsis's post-hearing brief is successful
4 in heading off defendants' contention.

5 Needless to say, I have read the Federal Circuit's
6 month-old opinion in Ring Plus against Cingular Wireless and
7 it does not call for a different conclusion. Indeed, wholly
8 unlike this case, the Ring Plus court had before it both
9 objective evidence and opinion testimony that confirmed a
10 misrepresentation of material fact as to what was there the
11 most relevant prior art reference.

12 Even more trenchantly though, however, Ring Plus
13 does not, as defendants seem to urge, perforce pronounce a
14 death sentence even if acclaimed infringer were to meet its
15 burden as to both materiality and intent. To the contrary,
16 Ring Plus -- and this is at page -- at *2 of the Westlaw
17 citation -- reconfirms the prior Federal Circuit teaching
18 "The District Court must still balance the equities to
19 determine whether the applicant's conduct before the PTO was
20 egregious enough to warrant holding the entire patent
21 unenforceable."

22 That is just what I have done here, and the
23 equitable balancing process tilts heavily in Celsis's favor
24 and against defendants. So here too defendants' assault on
25 the validity of the patent fails.

1 So I have come at last to the end of the
2 substantive road. I confirm that Celsis has more than met
3 the need to demonstrate a reasonable likelihood of success on
4 the merits. And less time and a less detailed explanation
5 are needed to deal with the other factors applicable to the
6 granting of preliminary injunctive relief.

7 In that respect the Federal Circuit, like our own
8 Court of Appeals, requires a movant for preliminary
9 injunctive relief to show, one, irreparability of harm; two,
10 that the balancing of harms favors the movant, that is, the
11 harm to the plaintiff if preliminary injunctive relief is
12 wrongfully denied is greater than the harm to the defendants
13 if such relief is wrongfully granted; and, three, that the
14 public interest weighs in favor of the grant of injunctive
15 relief. And in that last regard the question in a patent
16 case must be looked at in light of the "strong public policy
17 favoring the enforcement of patent rights." That is a quote
18 from PPG Industries against Guardian Industrial.

19 As for the first of those criteria, defendants
20 argue unpersuasively that the potential for recovery of the
21 damages negates the irreparability of harm. That, of course,
22 is not so, for the deterioration in market price that takes
23 place, as it did here, when a competitor can stay in the
24 market by unlawfully practicing a patent method creates
25 permanent harm by destroying the lawful monopoly to which the

1 older of a valid patent is entitled as a matter of law.

2 Think, for example, of the effect of competing for
3 price against a presumptively unlawful competitor, as has
4 actually taken place here. For example, the effect on
5 customer goodwill when an effort is later made to restore the
6 original price, and when ongoing customer relationships are
7 important, as defendants themselves have urged. Think as
8 well of the impact of the improperly depressed price on
9 future business if defendants engineer around the patent, as
10 its limitations make possible, so that competition then
11 becomes legitimate and the issue becomes one of competing as
12 to quality while trying to counter the impact of the earlier
13 illegitimate competition.

14 Moreover, in terms of the proof of damages, I am
15 reminded of what I said nearly two decades ago in a
16 preliminary injunction proceeding that involved trademark
17 infringement, obviously not parallel, but implicating
18 somewhat similar consideration. Here is what I said in
19 response to a like argument about the adequacy of damages
20 rather than injunctive relief if the context of
21 irreparability of harm in a case called Instrumentalist
22 against Marine Corps League. Parenthetically that involved
23 the John Philip Sousa aspect of the magazine and the League
24 itself.

25 But here is what I said: "There is no effective

1 way to measure the loss of sales or potential growth -- to
2 ascertain the people who don't knock on the door or to
3 identify the specific persons who do not reorder because of
4 the existence of the infringer." That language was later
5 picked up by our Court of Appeals in a case that, although I
6 didn't get a chance to -- as I recall, it was Hyatt Hotels
7 against Hiatt.

8 On the other side of the coin, any asserted harm to
9 CellzDirect has been taught by PPG to be of lesser scope
10 under such circumstances, as well as being protectable by a
11 bond. Plainly the balancing of harms tilts heavily in
12 Celsis's favor, and I am prepared to discuss quantification
13 of the appropriate bond at the parties' earliest convenience.

14 But, lastly, I have already referred to the PPG
15 teaching of a strong public policy favoring the enforcement
16 of patent rights. In sum, all of the necessary components
17 for the granting of preliminary injunctive relief have
18 aligned themselves in Celsis's favor, and I therefore grant
19 motion for such relief.

20 That, however, is not the end of the story for the
21 last two filings by the litigants have also spoken to the
22 precise leave to be granted. First, defendants have urged
23 that if a preliminary injunction is granted, I should couple
24 it with a stay pending appeal. That, however, would
25 effectively turn the decision I announced on its head, for it

1 requires defendants to show, one, the existence of a strong
2 showing of their likely success on the merits; two, that they
3 will be irreparably injured absent a stay; three, that the
4 issuance of a stay would involve no substantial injury to
5 Celis; and, four, that the public interest operates in
6 defendants' favor. All of that is taken from Standard Havens
7 Products against Gencor Industries, quoting and applying the
8 standards announced in Hilton against Braunskill. So I
9 decline the defendants' submission in that respect.

10 Finally, the defendants' post-hearing brief at
11 Pages 17 and 18 essentially seeks to dictate the express
12 terms of the preliminary injunction in a way that Celis
13 describes as seeking an advisory opinion to assist defendants
14 in their efforts to design around the '929 patent. On that
15 score the only contention that strikes me as having force is
16 the argument that defendants should not be barred from
17 marketing any pooled cryopreserved human hepatocytes made
18 before the patent's issuance on October 20, 2009.

19 To that end the defendants have cited the holdings
20 in Mycogen Plant Science against Monsanto and Monsanto
21 against Syngenta Seeds. I read both of those. And it is
22 quite true that the first and more thorough of those two
23 opinions has been vacated, although on other grounds, by the
24 Supreme Court, so that its status as precedent might perhaps
25 be viewed as somewhat uncertain. But I noted that second and

1 more recent case essentially reconfirmed the holding, so on
2 that subject on balance I believe it appropriate to follow
3 those cases, but that, of course, requires a showing that
4 defendants did not make during the course of the hearing.
5 And I will leave it to counsel, when I get through in about
6 30 seconds, to tell me what I have to do about that.

7 Well, that is the end of the road, as far as I am
8 concerned. What remains is the preparation and submission of
9 an appropriate form of injunctive order, plus a determination
10 as to the appropriate amount of any bond. And, of course,
11 that is a subject that interacts with that last ruling that I
12 made in the defendants' favor. Obviously, to the extent that
13 they are able to market things that were -- that were
14 developed before the issuance of the patent, that has
15 lessened materially any potential harm to the defendants. So
16 those things interact.

17 So at this point I am ready to hear from counsel,
18 and I suppose that it is more logical in the first instance
19 to hear from plaintiff's counsel on the subjects that I have
20 identified here on the one aspect on which I have ruled
21 against the plaintiffs, and also on the subject of bond
22 which, as I say, as I would view would interact with the
23 question that the defendants have not really answered -- they
24 have raised -- and that has to do with any product that was
25 indeed within the scope of those two cases that I referred

1 to.

2 So let me hear from plaintiff's counsel, if I may.

3 MR. SIGALE: Thank you, your Honor. With respect
4 to the one issue that you raise, we would submit that that is
5 answered by Claim 10 of the patent, which you did not make
6 findings on. We had submitted both Claims 1 and Claim 10 of
7 the '929 patent. Claim 10 is a method of utilizing
8 hepatocytes that are made in accordance with --

9 THE COURT: Yeah, I -- I am sorry that I
10 concentrated on 1. Basically I viewed -- I shouldn't say as
11 a caboose, it is not. But it seems to me precisely the same
12 line of analysis that I apply in terms of rejecting claims of
13 invalidity, I was really focusing -- although I framed it in
14 terms of 1, it obviously applied with equal force to Claim
15 10.

16 MR. SIGALE: Claim 10, your Honor, is a method of
17 testing for certain antibiotics. And so to the extent that
18 the defendants would be selling the multi-cryopreserved
19 hepatocytes for extensive use by its customers to practice
20 that method, they would be inducing infringement or
21 contributing to infringement by the sale of that. That is
22 not controlled by either the Monsanto or the Mycogen opinion,
23 because what they would be doing is making a sale now for the
24 customers to practice.

25 THE COURT: Well, I think the same thing could be

1 said vis-à-vis Claim 1, that is, that the patent in place
2 now, you know, talks -- the statute, make, use or sell.
3 Okay? So a sell is -- is as much a claim violation as make.
4 And yet the Patent Office distinguished those -- those
5 aspects by saying that something that got generated before
6 the patent issued may, nonetheless, be sold post-issuance.

7 MR. SIGALE: I understand your point, your Honor,
8 but the point of Monsanto and the point of the method claims,
9 the only way to infringe a method claim is by using the
10 method. You can't sell the method. You can't --

11 THE COURT: I know that.

12 MR. SIGALE: So the point I am making with respect
13 to Claim 10 is that when the customer set out to use
14 CellzDirect's multi-cryopreserved hepatocytes tomorrow, let's
15 say -- let's say hypothetically that there were
16 multi-preserved -- multi-cryopreserved hepatocytes made a
17 year ago. That would have been before the patent issued. If
18 they sell them today and the customers go to use them
19 tomorrow to test this antibiotic, which is the primary use of
20 these multi-cryopreserved hepatocytes, then they would be
21 using the multi-cryopreserved hepatocytes to practice the
22 method of Claim 10 post patent issue. That would be the
23 infringement. And so selling the multi-cryopreserved
24 hepatocytes to that customer, with no other use, that would
25 be inducing infringement.

1 THE COURT: Are you saying that is -- what is that,
2 inducement?

3 MR. SIGALE: Inducement, your Honor, or
4 contributory infringement. In either event you can enjoin
5 the defendants from selling the product.

6 THE COURT: Well, I will -- I want --

7 MR. SIGALE: And that is --

8 THE COURT: I will want to hear from the defendants
9 on that score.

10 I really had not focused on Claim 10 in particular
11 as to that component, but I must say I am not -- let me put
12 it a little differently. I was not totally convinced by the
13 two cases, but I am bound to follow them. Okay? And it
14 seemed to me that there is some element of illogic in -- in
15 saying that the -- that a party is home free by reason of
16 having practiced the method earlier and then being able to go
17 ahead and sell thereafter, because my suspicion is that the
18 same might well be said about what had happened in those
19 other cases. I didn't look at them from that perspective,
20 but that is -- I will want to hear from defendants on that
21 score.

22 MR. SIGALE: Okay. And, your Honor, we also
23 briefed this in that supplemental briefing that we made after
24 they made this additional argument explaining the difference
25 between the contributory infringement --

1 THE COURT: Yeah.

2 MR. SIGALE: -- and the inducement aspect with
3 respect to Claim 10. So I would refer the Court back there
4 to Claim 10 if you have additional considerations.

5 THE COURT: What about -- what about the issue of a
6 bond?

7 MR. SIGALE: Well, your Honor, we don't have any
8 proof as to what --

9 THE COURT: I know that.

10 MR. SIGALE: -- is actually -- but I also asked
11 Mr. Hunkeler on the stand as to what their costs were. We
12 couldn't determine that. We -- we know that the -- part of
13 their costs are payment to APS, Dr. Li's company. We don't
14 know how much those payments are. So we would submit that
15 the bond that we have in place now may in fact be more than
16 is necessary for any time period that will be in place for
17 this particular injunction. We are prepared to go to trial
18 on an early basis, if this Court is prepared.

19 THE COURT: Okay. Thank you.

20 Who takes up the cudgels on behalf of defendants,
21 Mr. Peterson, you or one of the lawyers here in court?

22 MR. PETERSON: Your Honor, with the Court's
23 indulgence I will make a -- a comment or two. I have asked
24 the -- I had a difficult time hearing opposing counsel's
25 comments, and toward the end of your Honor's decision the

1 telephone connection was not quite as good as it was earlier.
2 But let me make these comments, and then I would request the
3 indulgence of the Court to allow counsel present in the
4 courtroom, who have also been admitted pro hac vice to add
5 sufficient detail.

6 But regarding the scope of the injunction, as your
7 Honor I think has indicated, it is very important that it not
8 include products where any step of the claim was practiced
9 prior to the issuance of the patent. With respect to how
10 that interrelates with the bond, the bond really should be
11 considered to be prospective.

12 THE COURT: Well, it is --

13 MR. PETERSON: And with regard to a product made
14 prior to the patent, there is some quantity available --
15 there was testimony during the hearing that AP Sciences, a
16 supplier of defendants, made some product prior to October
17 2009. So that product would be a product that is not -- was
18 not made using the the method of the patent as published.

19 However, the bond relates to prospective injury,
20 and with respect to that the evidence was that the sales of
21 the defendants have been running at about a million dollars a
22 year. They are very high margins, so substantial net profits
23 to the product. The bond, as originally entered for the
24 temporary restraining order, was designed to be in accord
25 with a short restraining order using the \$240,000.00 per

1 quarter amount of sales as the indicator.

2 If now an injunction is entered that will last
3 through the trial and perhaps beyond, the bond -- until final
4 appeal of the case the bond should be commensurately higher,
5 which is in the order of considering a million dollars of
6 lost sales per year, as well as the injury of lost business
7 permanently and loss of the product line, should the bond
8 have been improvidently issued.

9 So we would urge that the bond be set in an amount
10 at least reflecting the million dollars per year sales and
11 the loss of future business and submit that a \$2 million or
12 higher bond would be appropriate. That is the only -- as
13 your Honor knows, the only amount against which defendants
14 are entitled to recover in the event of wrongful injunction.

15 With respect to Claim 10, the practice is -- of the
16 Claim 10 is subject to some of the same issues with respect
17 to Claim 1, that is, it requires the use of a
18 multi-cryopreserved hepatocyte preparation, which is defined
19 in the patent itself. And so that Claim 10 would not be
20 violated with respect to an injunction that allows a product
21 made prior to the patent date to be used.

22 THE COURT: I don't think -- I don't think that --

23 MR. PETERSON: Furthermore, there is another issue
24 here, which is respect to foreign customers, because with
25 respect to foreign customers, there would of course be no

1 infringement whatsoever with respect to use, sale, export or
2 use outside the United States. And so that can also be
3 carved out.

4 With that I would let either Mr. Finst or
5 Mr. Miller, who is present in the courtroom and who had a
6 better ability to hear the issues with respect to those
7 matters, add in, if your Honor so allows.

8 THE COURT: Thank you. One of the drawbacks of the
9 system, or lack of system, that we are operating under in
10 connection with the telephone call is that it is a one-way
11 street, that is, I cannot and could not break in at any point
12 when I found a problem with what you had stated. And,
13 accordingly, I will have to deal with that in terms of
14 counsel who are here in court. So let me hear from counsel.

15 MR. FINST: Good morning, your Honor. Let me first
16 respond to the Claim 10 point. There is two issues. The
17 first, you heard counsel allege that the sale of products
18 made before the patent issued would be an inducement
19 infringement or a contribution to infringement because of the
20 so-called multi-cryopreserved hepatocytes. But in terms of
21 the scope of your order, not just in the context of Claim 10
22 but also in the context of Claim 1, there is some significant
23 claim construction issues, particularly with regard, as your
24 Honor probably knows from Claim 10, what the meaning of
25 multi-cryopreserved is. Because the cells, the hepatocytes

1 that were made before the patent issued, are frozen. They
2 are not twice thawed. And as sold, they haven't been thawed
3 a second time. And, therefore, under an appropriate
4 construction of multi-cryopreserved hepatocytes, as it is
5 defined by the specification itself, there can be no direct
6 infringement of Claim 10 or a contribution or inducement of
7 infringement of Claim 10, not just by cells made before the
8 patent issued but by cells made after the patent issued as
9 well because they aren't multi-cryopreserved hepatocytes by
10 their very nature.

11 THE COURT: Wait just a minute. Let me see if I
12 understand where you are going on that point. What you are
13 suggesting, I gather, is that it is still possible for you,
14 with respect to those products, to essentially engineer
15 around the patent? Is that your claim, because of the fact
16 that they have not been -- they have not been subject to the
17 -- what is treated as the basic, what I have referred to as a
18 roadmap, for -- for noninfringement? Is that your argument,
19 that is, that they haven't gotten to that stage and,
20 therefore, when they get to that stage, you are going to be
21 in a position to do it, instead of without the -- without,
22 let's say, Percoll treatment to wash them, otherwise is that
23 -- with Percoll treatment and, therefore, these are not then
24 multi-cryopreserved within the meaning of the patent? Is
25 that what you are saying?

1 MR. FINST: This -- this is not even in the context
2 of the re-engineering that your Honor was referring to by the
3 wherein clauses. This is back to basic concepts of claim
4 construction and the definition of multi-cryopreserved
5 hepatocyte preparation, your Honor. And in Column 4,
6 beginning at line 18 through lines 22, there is an express
7 definition of multi-cryopreserved hepatocytes as hepatocytes
8 that have been frozen and thawed at least two times. And the
9 hepatocytes that are -- would be used or could be used within
10 the context of Claim 10, as required, have to have been
11 thawed a second time. And the hepatocytes that CellzDirect
12 is selling have not been thawed two times. So there cannot
13 be, in the context of either Claim 1 or even in Claim 10 --

14 THE COURT: All right. Wait just a minute.

15 MR. FINST: -- an infringement with respect --

16 THE COURT: Wait just a minute.

17 MR. FINST: Yes, your Honor.

18 THE COURT: You know, I wasn't there when you
19 people were engaging in whatever your process is. The first
20 time I have heard that the -- that what you have in hand --
21 what your client has in hand are things that have not been
22 multi-cryopreserved. I didn't understand that at all. I
23 didn't hear anything about that during the course of the
24 hearing. I would have expected that if that were the case,
25 the argument would have been made on behalf of defendant.

1 You weren't bashful about making arguments. I would have
2 expected to hear that the argument would have been what are
3 you -- go away, don't bother me; take your business elsewhere
4 because we are not involved in -- in that infringement at
5 all. And that isn't what I heard.

6 You know, for you to be coming up with this at this
7 point really strikes me as -- as very troubling, frankly.
8 Why -- if such is the case, if what you were -- what you are
9 basically saying is that we haven't practiced the -- what is
10 charged in the -- in the complaint because we don't have
11 multi-cryopreserved product and, therefore, we haven't
12 practiced that method, why didn't I get told that then and
13 say, why are we wasting all of your time? That is troubling.

14 Do you understand the question I am asking?

15 MR. FINST: I understand what your Honor is saying
16 and I --

17 THE COURT: You had -- I think you had an
18 obligation -- you had a obligation to the opposing party, you
19 had an obligation to the Court, to front that matter, because
20 basically what you are saying is, well, we weren't infringers
21 at all. That is what you are saying. We weren't infringers
22 under any reading. And, come on, that isn't how I heard the
23 thing coming out in connection with what is a hard-fought
24 proceeding up to this point. And for you to keep that in
25 your hip pocket until now is really -- you know, talk about

1 inequitable conduct. That one really strikes me as very
2 troubling indeed.

3 I will expect to hear from plaintiff's counsel
4 because, you know, they are -- they are more the technical
5 people, obviously, than I in this field. But that is very
6 disturbing.

7 MR. FINST: So I disagree with your Honor's
8 statement that we have kept this in our pocket and raised it
9 for the very first time. This argument was squarely joined
10 during the course of the proceedings and in our briefing,
11 both before the hearing and after the hearing. And we asked
12 Dr. Strom specifically -- in fact it was plaintiff's counsel
13 who asked Dr. Strom specifically whether the claims
14 themselves required a second thaw to be infringed. And Dr.
15 Strom said on the stand under oath that claims require a
16 second thaw to be infringing.

17 THE COURT: That is your -- you are missing -- I am
18 sorry, you are not being responsive to my point. I am not
19 talking about what the claims require. What I am talking
20 about is your conduct. That is what I am talking about when
21 I say that that is really inappropriate. Of course, nobody
22 is arguing about the construction of the claim. Everybody
23 knew from day one that multi-preserved means multi-preserved,
24 you know, it is a -- multi-cryopreserved, and that was never
25 an issue.

1 What you are now saying, however, is that, well,
2 our product really is -- is washed clean, to make a bad pun,
3 because of the fact that it never practiced the art that is
4 taught by the patent. And I heard not a single word to
5 suggest that during the course of the hearing.

6 Let me -- let me see if I -- have I missed
7 something, counsel?

8 MR. SIGALE: Your Honor, I think perhaps Mr. Finst
9 may have started the argument a little unartfully. I think
10 what he is trying to argue with respect to Claim 10 --

11 THE COURT: Well, don't make his argument for him.

12 MR. SIGALE: Well, your Honor, this is --

13 THE COURT: All right. Tell me -- tell me your
14 thought.

15 MR. SIGALE: -- this is an important thing, and I
16 want to make sure the Court understands and so we don't make
17 a mistake. There is important issues at stake.

18 THE COURT: Okay.

19 MR. SIGALE: There is clearly going to be an appeal
20 at stake, so let's try to get it right so we are not just
21 back down here.

22 THE COURT: Okay.

23 MR. SIGALE: Okay? The way I hear the argument is
24 this: It is multi-cryopreserved. The question is whether or
25 not CellzDirect is doing the second thaw. And what they are

1 arguing now -- and that was one of the things that they added
2 into their post-trial brief -- is because they are not doing
3 the second thaw, they somehow avoid the claim. I would
4 submit that that is just ridiculous. They didn't submit any
5 evidence that any of the researchers or any of the customers
6 used the multi-cryopreserved hepatocytes frozen.

7 THE COURT: How --

8 MR. SIGALE: Somebody is thawing them, right?

9 THE COURT: Somebody has got to thaw them.

10 MR. SIGALE: So there has been no proof of any
11 infringing use. So if this noninfringement argument is
12 somehow that people are using the multi-cryopreserved
13 hepatocytes frozen --

14 THE COURT: As frozen.

15 MR. SIGALE: -- it is absurd. And that is what I
16 think I am hearing here.

17 Now, there is another aspect to the argument -- and
18 this comes back to what your Honor had said during the
19 hearing. The question is, what does it mean in the whereas
20 clauses where it says without requiring --

21 THE COURT: Wherein. The wherein clause.

22 MR. SIGALE: Wherein you are not required to do the
23 density fractionation step --

24 THE COURT: Right.

25 MR. SIGALE: -- after the second freezing. They

1 are saying that you don't know if you need to do that until
2 you have done the second thaw. That is silly. That is the
3 point that you were making. The not requiring it means that
4 you tell your customers you don't have to do the Percoll step
5 when you -- when you get this product. They have been
6 selling it in this very way. They say clean it up with CHRM.
7 They don't say clean it up with Percoll.

8 So there is no evidence that was presented at the
9 hearing to support this no second thaw argument. That I
10 think is the problem, and that is why it is not ringing with
11 the Court now, because they didn't present any evidence that
12 any customer would ever dream of using the hepatocytes as a
13 popsicle. It just doesn't happen.

14 THE COURT: Well, I -- look, I am going to leave it
15 -- I am going to leave it to counsel in terms of the framing
16 of the terms of the preliminary injunction. But I must say
17 that the -- that the arguments that you are -- that you are
18 suggesting is one that cannot carry with it, I think as a
19 logical matter, the idea that no second thaw take place. The
20 -- for exactly the reason that was posed on behalf of Celsis
21 who operates with these cells in their frozen capacity.

22 Is that really what the -- what the -- the people
23 who are engaged in the process do? I would be amazed at that
24 because I am not sure how that works -- of course I don't
25 know. You know, I don't know what the -- what the scientists

1 do. But the idea that he would be functioning with still
2 frozen cells, I am not sure what kind of experimentation can
3 go on with that, because the whole idea is to have cells in
4 viable form. And I don't think that you can refer to the --
5 to a still frozen cell as viable in a meaning -- meaningful
6 way. Something has got to be done to that in order to make
7 it viable for purposes of the scientific process that
8 follows, the testing and the experimentation that follows.
9 So if that is the nature of your argument, you don't get --
10 you don't get much mileage on it.

11 Has -- has counsel misstated the argument as you
12 have posed it? You think that it doesn't fit the definition
13 because of the fact that it hasn't yet taken place, is that
14 what you are saying? That you say, well, the definition is
15 clear from the language of the patent, just look at it, and
16 this doesn't fit because we haven't yet thawed the cells
17 after the second cryopreservation, is that your argument?

18 MR. FINST: That is at least part of the argument,
19 at least with respect to Claim --

20 THE COURT: That one you lose. What is the rest?

21 MR. FINST: So, your Honor, now that I understand
22 you are going to defer to the parties to come up with the
23 scope of the order, I think we need some very clear road
24 marks in terms of claim construction and some of these claim
25 terms so that we can frame an appropriate -- or at least we

1 can try and frame an appropriate order with counsel. And
2 there are some claim terms where we really need a
3 construction if we are going to work with the other side to
4 come up with an appropriate order.

5 THE COURT: Well, you know, I left the practice --
6 I used to do some patent work, believe it or not, although
7 that was a sign of misspent youth, but I am not in that
8 business now. And I am not going to be engaging in patent
9 practice by redrawing claims on an issued patent. The patent
10 was issued in accordance with its terms. And so what you are
11 asking me now is to engage in some kind of redefinition or
12 reframing, and I am not doing that to assist either side. I
13 am not doing that to assist you in -- in being able to design
14 around. You people are ingenious. You figure out your own
15 way to design around.

16 I made the point about in four different ways that
17 by including the wherein provisions, they have essentially
18 pointed the way for anybody who does not intend to infringe
19 to avoid infringement.

20 But the -- but the idea of saying, well -- to the
21 Court, you draft one carefully so that we know exactly what
22 we have to do, that is really not my responsibility. And so
23 the idea of saying, well, the patent is there, but don't
24 worry about that, Judge; you recast the patent. You know, I
25 am not -- I am not in that practice and I am -- I am

1 certainly not going to do it. The ultimate determinations on
2 that are in the Federal Circuit as to -- but nobody has
3 raised the meaning of claims to begin with. That was not
4 part of our -- our discussion.

5 So if -- if that is the second part of the
6 argument, then that is the one -- I think I already
7 dispatched that in the comments I made at the beginning. I
8 am not accepting that invitation to -- to essentially assist
9 by some kind of advisory opinions in terms of the -- what the
10 patent -- how the patent can be avoided. So I am -- I am
11 leaving the drafting of the preliminary injunction in that
12 sense to counsel to prepare and tender to you and tender me.
13 And then I will hear if there is any objections.

14 But what about this -- your heard Mr. Peterson's
15 point about what you believe -- what he believes the bond
16 issue ought to be. Is there something that -- that you
17 wanted to add to or elaborate on that before I turn to
18 plaintiff's counsel and ask them?

19 MR. FINST: Yes, your Honor. So I just want to
20 respond to one point that you have just made outside of the
21 bond context. We are not asking you to reinterpret the
22 claims. But as part of your analysis for making a
23 determination on likelihood of success on infringement, I am
24 sure you necessarily engaged in claim construction to make
25 findings of the meaning of multi-cryopreserved hepatocyte.

1 THE COURT: No, I am not going to do that. The
2 patent -- you know, I have criticized -- I issued a published
3 opinion a long time ago because I -- my secretary got tired
4 of typing up the same stuff in which I -- in the context of
5 pleading I criticized lawyers for saying that a document
6 speaks for itself by saying I have been listening to
7 documents for years and I have yet to hear that.

8 But I am -- it seems to me that this is one area in
9 which in asking the Court to invent a new -- a new patent for
10 one that has issued is an invitation to peril. It is really
11 not the Court's responsibility. And, you know, we didn't get
12 anything that even suggested, for example, that there were
13 Markman considerations that had to be looked at at this
14 stage. I didn't hear that from either side. And, you know,
15 absent an invitation to do that, which is something that I --
16 I normally view as the -- as the threshold issue in any
17 patent case, I didn't touch on it. And I don't think that at
18 this point you can essentially get into that -- back into
19 that.

20 MR. FINST: So procedural, your Honor -- and I
21 think the other side, Celsis's counsel, would agree that
22 there were disputes about the construction of many of the
23 terms that are at issue. And now to the extent your Honor
24 doesn't make a ruling on those, that is your Honor's decision
25 or prerogative.

1 Let me -- let me address the bond because I suspect
2 your Honor wants us to move on at this point. On the bond it
3 is going to be -- again, it is going to be very important to
4 know what particularly the scope of the preliminary
5 injunction order is to calculate an appropriate amount. That
6 said, the preliminary calculus --

7 THE COURT: There is nothing -- nothing to prevent
8 you people, if you want to -- if you want to avoid further
9 conflict with the plaintiff, there is nothing to prevent you
10 people from practicing the art in a way that you believe is
11 invited by the patent in terms of its narrowing of its scope.
12 And that was done at the instance of the Examiner. And
13 essentially all you got to do at that point, if you think
14 that you have got a product that is -- that is just as good
15 practicing a different method -- be by my guest.

16 So the idea of saying, well, we insist on being
17 able to do the thing in the way that the patent marks out
18 and, therefore, that should be the measure of the bond, seems
19 to me to fall somewhat -- and more than an analogy --
20 somewhat -- very much like mitigation of damages, that is, as
21 I understand it, this patent, the way it was done, the way
22 that it was developed, the way that it was narrowed in order
23 to meet the objections of the Examiner, essentially gives
24 guidance as to how people can conduct themselves in this
25 business without practicing the patent.

1 MR. FINST: Right.

2 THE COURT: And if that is something that your
3 people can do, then it seems to me that the notion of saying,
4 oh, well, we are losing millions of dollars, doesn't --
5 doesn't really -- doesn't really, I think, carry a lot of
6 force to it. I mean I haven't heard yet why it -- it is not
7 possible to -- for example, suppose that the -- that the
8 issue is one of not using, for example, a second stage, the
9 Percoll, or whatever that is, but at the second stage. Okay?

10 So if your view is that using Percoll at the second
11 stage as well is something that can be done and, therefore,
12 is nonviolative of the patent, what does it cost your people
13 to do that and -- and then avoid -- avoid infringement, and
14 doesn't that then play a major role in this claim? You don't
15 lose then millions and millions of dollars by reason of lost
16 sales. You -- you incur an added cost, whatever that amount
17 may be -- and I suspect that it is not that major in terms of
18 the totality -- and go ahead and compete with Celasis and say,
19 we have got -- we got a product here that -- a method that is
20 -- that is done by a method that doesn't infringe, and buy
21 our product. You know, I don't understand that at all.

22 MR. FINST: Because there is a dispute --

23 THE COURT: Let me ask plaintiff's counsel. Have I
24 slipped a cog here or is that --

25 MR. SIGALE: I think there is a -- maybe a

1 communication problem. I mean necessarily, your Honor, you
2 have established some understanding of what the meaning of
3 the language in Claim 1 means.

4 THE COURT: Well, yeah, I know that.

5 MR. SIGALE: I think what defendants are asking for
6 is beyond the pale, which I think is what we are talking
7 about now, and that is they want you to give them specific
8 definitions for a roadmap to design around the patent, which
9 we have argued is asking for a hypothetical opinion. The
10 Federal Circuit in a number of cases has said that it is
11 important for the Court to look at the infringing product in
12 determining what the claims mean; we shouldn't be looking at
13 these things in the abstract. And the only product that we
14 have seen is a product that does exactly what the
15 interrogatory answers say that it does. And so for us to
16 talk about --

17 THE COURT: Let me focus on -- may I -- on the
18 point that I made. You talk about product. This is a method
19 patent. Okay? All right. And, therefore, my question is,
20 if -- if it is possible for them to practice a different
21 method that does not then infringe, and they come up with a
22 product that they say is just as good, this -- just as good
23 as the Chevrolet, Ford is better, so --

24 MR. SIGALE: Sure.

25 THE COURT: How does that -- how do they then claim

1 zillions of dollars of damages?

2 MR. SIGALE: Well, your Honor, that is one of the
3 points I would make on the bond, and that is they have been
4 plenty creative here in this Court. I have every faith that
5 they will find some creative way to try and get around the
6 patent. We will only know after they come up with their
7 creative way to get around the patent. But the Court has
8 pointed to a number of claim terms in deciding what the
9 claims mean that has provided them, perhaps, an easier patent
10 to design around. They may be able to accomplish it, they
11 may not, but we have no idea how they are going to implement
12 their proposed design-around for you to provide them with
13 some Don Quixote claim construction windmill that they can go
14 after.

15 THE COURT: But I -- but I am focusing for a minute
16 on quantifying a bond, okay?

17 MR. SIGALE: There is an initial problem that we
18 need to overcome, and that is this: The only evidence that
19 we have regarding the gross sales is in Mr. Hunkeler's
20 declaration. We asked CellzDirect to provide us with the
21 backup sales numbers on a month-by-month basis. Mr. Peterson
22 promised the plaintiff that he would send us that material.
23 We never received it. Okay? That is number one.

24 Number two, we only have the gross number. We
25 don't know the net.

1 THE COURT: Right.

2 MR. SIGALE: We are not covering their gross. We
3 are -- a bond is meant to cover their loss in profits. And
4 we were not provided with any cost information. I asked
5 Mr. Hunkeler if he could describe what the costs were. For
6 all we know, the costs of that million dollars in sales could
7 have been \$950,000.00. We just don't know. And this Court
8 is left with no basis on which to make a determination
9 regarding the bond. We also don't know what the trial date
10 is. And we also don't know how quickly they can implement a
11 successful design-around.

12 Based on that there is a paucity of proof with
13 respect to the bond that needs to be put into place here.
14 And that was defendants' responsibility to do so, not ours,
15 your Honor. Not the Court. The Court doesn't have to make
16 up the evidence on which a bond should be placed. If the
17 defendants want a bond, they need to put into the record the
18 evidence on which this Court can reasonably base a bond.

19 THE COURT: Well --

20 MR. FINST: So let me respond to that because I am
21 aware of no law which says during a preliminary injunction
22 hearing one has to provide evidence on what the appropriate
23 bond number should be with specificity.

24 THE COURT: What, does that come out of my head?

25 MR. FINST: That -- well -- if your Honor issues a

1 preliminary injunction, I think it is matter of efficiency if
2 the Judge -- if your Honor doesn't issue a preliminary
3 injunction, why inundate you with evidence about what the
4 particular number should be? If your Honor does enter an
5 injunction, then revisit it and then let's look and see what
6 an appropriate figure should be.

7 Let me propose this: Your Honor has indicated
8 parties have to meet and confer about what the scope of a
9 preliminary injunction order should look like. I think we
10 should join with that issue what specifically the figure --
11 bond figure should be so we can prepare those numbers and
12 make a proposal to the Court.

13 THE COURT: Well, you know, that does not reflect a
14 reading of Rule 65C. Rule 65C says the Court may issue a
15 preliminary injunction or a temporary restraining order only
16 if the movant gives security in an amount that the Court
17 considers proper to pay the costs and damages sustained by
18 any party found to have been wrongfully enjoined or
19 restrained. I do not understand that as meaning enter an
20 injunction now and decide at some indefinite later time.

21 What I have to do is to deal with the record as it
22 has been developed. And I think that as the record has been
23 developed, the -- what has been said on behalf of the
24 plaintiff is -- is really an accurate reflection of what we
25 have had in place for the Court's determination as to a --

1 the amount that it considers proper.

2 Now, that doesn't mean that, for example, if there
3 is a showing made at some later point that a greater amount
4 is necessary, that you can come in and make such -- and
5 tender such a showing. And if we have to deal with it in
6 evidentiary terms, I guess we will deal with it in
7 evidentiary terms. But as far as I know, the requirement is
8 that when the Court issues the injunction order, it sets a
9 bond and it sets a bond based upon what the evidence is that
10 has been before it.

11 I am not going to hold off on the issuance of a
12 preliminary injunction while you go about doing whatever you
13 think has to be done in terms of setting up matters that
14 haven't been addressed. So at this point I think the thing
15 that should be done is for plaintiff to have the laboring oar
16 for purposes of preparing a proposed form of injunction
17 order. That does mean meet and confer because, obviously,
18 you have had the opportunity to deal with it before it gets
19 tendered to me. If the parties are differing in terms of
20 what the scope is, you will give me counter-versions. And I
21 would expect that the -- that the issues of bond is going to
22 be determined based on what we have up to this point, with
23 the understanding again that if you make a showing at some
24 later point that the -- that that is not adequate to deal
25 with the risks that you are involved in, you can make such a

1 showing.

2 But, again, I -- I give you the caveat that it
3 sounds to me as though part of that -- any -- any
4 presentation on your part, you have to be prepared to deal
5 with the point that I made, and that is that to the extent
6 that you are in a position to mitigate damages in a real
7 sense that I have talked about, you have that -- you are
8 going to have that responsibility. So you can't just pick a
9 boxcar number and say, well, we have X million dollars in
10 sales and, therefore, that fixes the amount of the bond. Of
11 course it does not. It does not. The -- you know, it is a
12 risk of loss that is involved when you are dealing with the
13 bond. And the risk of loss is not gross, it is net.

14 So my question of you -- of both is -- or all of us
15 is, what kind of time should I contemplate for purposes of
16 getting to me proposed form or forms of order?

17 MR. SIGALE: Your Honor, from our vantage point,
18 last time we tried to agree to an order with defendants, it
19 went no place and we had to come back to the Court. So I am
20 concerned about this. I would like to suggest that we set a
21 time certain, perhaps even tomorrow, because tomorrow night
22 at sundown begins the Jewish New Year. I am gone for the
23 rest of the week after tomorrow night at sundown, and I don't
24 want to leave this sit, because I am not sure the defendants'
25 status or how they view it between now and the time that we

1 get the paper order entered.

2 So we have a prior order that we submitted to
3 defendants for purposes of the TRO. We will go back and we
4 will put it back together for purposes of a PI. We will get
5 it to them within a few hours maximum. We would like to meet
6 with them this afternoon on it, figure out what it is going
7 to say and present it to the Court perhaps in open court
8 tomorrow.

9 THE COURT: I will wait to hear from you. And if
10 you have something to present to me tomorrow, I will review
11 it.

12 MR. SIGALE: Can we get on calendar for tomorrow
13 then?

14 THE COURT: Pardon?

15 MR. SIGALE: Can we get on calendar for tomorrow
16 then, your Honor?

17 THE COURT: Well, I have got the voir dire
18 conference in that criminal case, right, Sandy?

19 THE CLERK: Yeah, at 1:15.

20 THE COURT: What time is that one?

21 THE CLERK: 1:15.

22 THE COURT: You are facing a sundown problem,
23 right, tomorrow, is that it?

24 MR. SIGALE: Well, I don't have a criminal waiting
25 to go to jail, your Honor, but I need to get out sometime

1 around 4:00 o'clock in the afternoon to get home.

2 THE COURT: Well --

3 MR. FINST: So, your Honor, Scott Miller and I are
4 available for the duration of the day. We were planning to
5 fly out this evening. We are agreeable to sticking around --

6 THE COURT: If you can do it --

7 MR. FINST: -- and working with --

8 THE COURT: If you can do it and get it to me in
9 the morning, that is fine.

10 MR. SIGALE: All right. Then --

11 THE COURT: Tomorrow morning.

12 MR. FINST: To the extent we can meet and confer
13 with counsel, and if it goes into tomorrow --

14 THE COURT: I will say 10:00 o'clock. If you have
15 a problem with that, get back to Sandy and let her know.

16 MR. SIGALE: 10:00 o'clock will be great, your
17 Honor. Thank you.

18 I guess the other question for purposes of setting
19 a bond is, when does the Court think it would be available
20 for trial in this matter?

21 THE COURT: Well, you know, look, trials in my
22 court require final pretrial order before the trial takes
23 place. And ordinarily the way that I handle a normal case --
24 and I know this is abnormal in all respects -- the way I
25 handle a normal case is that because the plaintiff has the

1 laboring oar in generating the -- the draft of a final
2 pretrial order, I normally allow about six weeks for them to
3 take the back and forth of generating that, keeping in mind
4 that I would not require trial briefs in this one. I never
5 do. I would not require an identification -- I would not
6 require motions in limine to accompany the final pretrial
7 order. To the extent that motions in limine are anticipated,
8 I would require just a brief statement as to the nature of
9 the motions, because what I always do is to set a pretrial
10 conference within a couple -- 14 days after I get the final
11 pretrial order. I would not require -- this is going to be a
12 jury trial, bench trial, what?

13 MR. SIGALE: That is a good question your Honor.

14 THE COURT: Pardon?

15 MR. SIGALE: We demanded a jury.

16 THE COURT: Okay. So you don't have to have jury
17 instructions and you don't have to have voir dire
18 questions --

19 MR. SIGALE: We did demand a jury.

20 THE COURT: -- with a final pretrial order.

21 MR. SIGALE: So we don't need to include the voir
22 dire and the jury instructions?

23 THE COURT: Not in the final pretrial order itself.

24 MR. SIGALE: Okay.

25 THE COURT: That facilitates being able to

1 generate --

2 MR. SIGALE: Sure.

3 THE COURT: -- the final pretrial order in shorter
4 form.

5 You do identify the prospective witnesses on a will
6 call and may call division.

7 You identify anticipated exhibits. And under our
8 final pretrial order form no objections are entertained to
9 exhibits that are not referred to in the final pretrial
10 order. I do not want any foundation objections. I do not
11 want any authentication objections. Those are seldom
12 productive. And unless a document is bogus, in which case
13 you can, of course, refer to foundation. But other than
14 that, I do expect to see that.

15 I don't require an identification of contested
16 issues of fact. Agreed-upon issues of fact should be there
17 because that tends to facilitate a trial because that can be
18 delivered by way of stipulations rather than calling a
19 witness -- a live witness to deal with items that are of that
20 nature.

21 And I -- I am not sure -- usually I do not require
22 a statement as to contested issues of law. In this instance,
23 experience of dealing with you people for a short time,
24 suggests that maybe I ought to have that so that we don't
25 find ourselves like ships that pass in the night.

1 But that is -- but to complete this, when I get the
2 final pretrial order and have the pretrial conference,
3 depending on whether there are motions in limine of any
4 significance, I -- I ask counsel to provide me with their
5 statement of unavailability, which includes unavailability of
6 witnesses, during the next couple of months so that I can
7 basically -- and also, as the order provides, an estimated
8 length of trial. And that way I can then -- depending on
9 what we get from both sides on that, we can then set a trial
10 date. So trial date is not something that gets set now. It
11 gets set once we have our pretrial conference. Okay?

12 MR. SIGALE: Can --

13 THE COURT: I think that is it.

14 MR. SIGALE: Can we set then the pretrial
15 conference date? I guess that was the appropriate question.

16 THE COURT: That is normally -- that is normally
17 about two, three working days after I get the final pretrial
18 order because that will have enabled me to take a look at it
19 and see whether I find any deficiencies or not.

20 MR. SIGALE: Okay.

21 THE COURT: So that is a function of -- of how
22 quickly you can produce that.

23 MR. SIGALE: Okay. So in terms of the final
24 pretrial order, is it on the parties to decide when we submit
25 it to your Honor then? Is that --

1 THE COURT: Well, no.

2 MR. SIGALE: -- acceptable?

3 THE COURT: I just told you what my norm is. If
4 you can beat that, by all means be my guest.

5 MR. SIGALE: I --

6 THE COURT: The sooner you can generate that, the
7 sooner we are likely to have trial.

8 MR. SIGALE: Sure.

9 THE COURT: All I am saying is that in recognition
10 of the fact that the plaintiff does the -- does the first
11 draft --

12 MR. SIGALE: Sure.

13 THE COURT: -- and then there is back and forth, my
14 normal pattern, normal experience, is that it takes five,
15 six weeks to get it to me. If you can do it faster,
16 wonderful.

17 MR. SIGALE: We haven't had discovery yet, your
18 Honor, so I am trying to figure out the parameters of the
19 case because if it is going to be about a year --

20 THE COURT: I don't know how much discovery you
21 want. You know, I figured you people are all ready to go to
22 bat. You know, that is the way you sounded. I wanted to
23 know how quickly you can do it.

24 MR. SIGALE: Well, I am as ready to go to bat as I
25 can without having been in their facility to see how they

1 have practiced the invention directly, so --

2 THE COURT: Obviously I am not going to set a
3 schedule until you get your discovery.

4 MR. SIGALE: Okay.

5 MR. FINST: With respect to the schedule, your
6 Honor, when do you hold a claim construction hearing? Is
7 that right up against trial or is it typically in advance of
8 trial by a --

9 THE COURT: What about the -- the Markman hearing?

10 MR. FINST: Yes, sir.

11 THE COURT: I try to do that at the earliest
12 possible time. You know, the way in which you people
13 presented this thing to me -- and I am not faulting anybody,
14 but I got to tell you the impression I got was there were no
15 disputes about claim construction that -- because if there
16 had been -- if there had been, I would have expected those to
17 be tendered to me essentially in that form in conjunction
18 with the preliminary injunction hearing that we had.

19 And when I didn't get that, it -- my natural
20 assumption, I will tell you, was that this is not a case that
21 basically deals with the way I normally approach patent
22 litigation, and that is to say to the lawyers, when they
23 start talking about discovery, I want you to focus -- even
24 though I know, by the way, the new patent rules say otherwise
25 -- but I always say, no, do Markman first because it is very

1 important that we have an identical vocabulary before we go
2 forward. I don't know why the majority of people who
3 contributed to this whole process came out the other way. It
4 didn't seem to me to make a lot of sense.

5 But I will tell you my -- my practice has always
6 been to approach Markman issues first and -- and I -- all I
7 could tell you is my understanding really had been that --
8 that those issues were really not issues from our
9 perspective, because that isn't the way that the people on
10 either side teed up the presentation for me. So, you know,
11 if I was mistaken on that, I don't know -- I don't know whose
12 fault that is.

13 MR. SIGALE: I don't believe you were, your Honor.
14 We believe that the plain and ordinary meaning generally
15 controls. Our briefs were very clear on that.

16 THE COURT: Yeah.

17 MR. SIGALE: Whether the defense raised claim
18 construction issues or not, I will leave it to them to state.

19 MR. FINST: And --

20 MR. SIGALE: So I think we know -- I am sorry, Mr.
21 --

22 MR. FINST: Counsel.

23 MR. SIGALE: So I think we have our marching orders
24 and we will get something to the Court hopefully tonight so
25 we can --

1 THE COURT: All right.

2 MR. SIGALE: -- talk with you tomorrow about it.

3 THE COURT: Thank you.

4 MR. SIGALE: Thank you. Thank you, your Honor.

5 (Which were all the proceedings heard.)

6 CERTIFICATE

7 I certify that the foregoing is a correct transcript
8 from the record of proceedings in the above-entitled matter.

9

10 s/Rosemary Scarpelli/

Date: September 8, 2010

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